

RESEARCH AND DEVELOPMENT TAX CREDIT

Name as Shown on Return	Federal ID Number	NJ Corporation Number
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READ THE INSTRUCTIONS BEFORE COMPLETING THIS FORM

NOTE: Property and expenditures included in the calculation of the Research and Development Tax Credit are not permitted to be included in the calculation of the Recycling Equipment Tax Credit, the Manufacturing Equipment and Employment Investment Tax Credit or the New Jobs Investment Tax Credit.

PART I CREDIT CALCULATION FOR BASIC RESEARCH PAYMENTS

1. Enter the basic research payments paid or incurred to qualified organizations	1.	
2. Enter the base period amount	2.	
3. Subtract line 2 from line 1. If less than zero, enter zero	3.	

PART II CREDIT CALCULATION FOR QUALIFIED RESEARCH EXPENSES

4. Wages for qualified services (do not include wages used to compute the Federal Jobs Credit)	4.	
5. Cost of supplies	5.	
6. Rental or lease costs of computers	6.	
7. Enter 65% (.65) of contract expenses	7.	
8. Total qualified research expenses - Add lines 4 through 7	8.	
9. Enter fixed-based percentage, but not more than 16%	9.	%
10. Enter average annual gross receipts	10.	
11. Base amount - Multiply line 10 by the percentage on line 9	11.	
12. Subtract line 11 from line 8	12.	
13. Enter 50% (.50) of line 8	13.	
14. Enter the smaller of line 12 or 13	14.	

PART III TOTAL RESEARCH AND DEVELOPMENT TAX CREDIT

15. Enter the total of line 3 and line 14	15.	
16. Enter 10% (.10) of line 15	16.	
17. Research and Development Tax Credit carried forward from a prior tax year	17.	
18. Total Research and Development Tax Credit Available (Add line 16 and line 17)	18.	

PART IV CALCULATION OF THE ALLOWABLE CREDIT AMOUNT

19. Enter tax liability from page 1, line 11 of CBT-100 or line 9 of Form CBT-100S	19.	
20. Enter the required minimum tax liability as indicated in instruction (b) for Part IV	20.	
21. Subtract line 20 from line 19	21.	
22. Enter 50% (.50) of the tax liability reported on line 19	22.	
23. Enter the lesser of line 21 or line 22	23.	
24. Tax credits taken on current year's return:		
a) HMO Assistance Fund Tax Credit _____		
b) New Jobs Investment Tax Credit _____		
c) Urban Enterprise Zone Tax Credit _____		
d) Redevelopment Authority Project Tax Credit _____		
e) Recycling Equipment Tax Credit _____		
f) Manufacturing Equipment and Employment Investment Tax Credit _____ TOTAL	24.	
25. Subtract line 24 from line 23. If the result is less than zero, enter zero	25.	
26. Allowable credit for the current tax period - Enter the lesser of line 18 or line 25 here and on Schedule A-3 of the CBT-100 or the CBT-100S	26.	

PART V CALCULATION OF RESEARCH AND DEVELOPMENT TAX CREDIT CARRYOVER

27. Enter amount from line 18	27.	
28. Enter amount from line 26	28.	
29. Research and Development Tax Credit Carryover - line 27 minus line 28	29.	

Instructions for Form 306 Research and Development Tax Credit

ITEMS TO NOTE

- A credit can be claimed for only those research activities that are performed in New Jersey.
- A credit for increased research activities is allowed based on qualified expenditures made in taxable years beginning on and after January 1, 1994.
- The filing of a consolidated tax return by a controlled group of corporations is not permitted.
- Section references are to the Internal Revenue Code unless otherwise noted.
- For periods beginning on and after January 1, 2002, any deductions for research and experimental expenditures, to the extent that those research and experimental expenditures are qualified research expenses or basic research payments for which an amount of credit is claimed pursuant to section 1 of P.L.1993, c.175 (C.54:10A-5.24) unless those research and experimental expenditures are also used to compute a federal credit claimed pursuant to section 41 of the Federal Internal Revenue Code of 1986, 26 U.S.C. s.41, if applicable, must be added back on Schedule A, of the CBT-100 or CBT-100S return on the line for "Other deductions and additions". See the CBT return for Schedule A instructions.

PURPOSE OF FORM

Use form 306 to calculate and claim the credit for increasing the research activities of a trade or business. Complete Parts I through IV to compute the research credit.

QUALIFIED RESEARCH ACTIVITIES

The research and development tax credit is generally allowed for qualified research activities. Qualified research activities are limited to scientific experimentation or engineering activities designed to aid in the development of a new or improved product, process, technique, formula, invention, or computer software program held for sale, lease, or license, or used by the taxpayer in a trade or business. For in-house research expenses (see I.R.C. 41(b)(2)), this trade or business requirement will be met if the principal purpose for

conducting the research is to use the results of the research in the active conduct of a future trade or business. See I.R.C. 41(b)(4).

The research and development tax credit is generally not allowed for the following types of activities:

1. Research conducted after the beginning of commercial production;
2. Research adapting an existing product or process to a particular customer's need;
3. Duplication of an existing product or process;
4. Survey or studies;
5. Research relating to certain internal use computer software;
6. Research conducted outside the State of New Jersey;
7. Research in the social sciences, arts, or humanities; or
8. Research funded by another person (or governmental entity).

See I.R.C. 41 for other definitions and special rules concerning the research credit.

WHO MUST FILE

A corporation claiming a credit for increasing research activities should complete this form and attach it to its tax return.

A New Jersey S-Corporation is allowed to claim a credit in connection with increasing research activities to the extent of its New Jersey corporation tax liability. Pass through of this credit to shareholders is not permitted.

See I.R.C. 41(f) for special rules related to:

1. Adjustments if a major portion of a business is acquired or disposed of; and
2. Short tax years.

CREDIT CARRYOVER

If the research credit cannot be used because of tax liability limitations, it may be carried forward up to fifteen years. Complete Part V to document any tax credit carryover.

Specific Instructions for Form 306

PART I

CREDIT CALCULATION FOR BASIC RESEARCH PAYMENTS

Line 1 - Corporations are eligible for a "basic research" credit if your payments in cash to a qualified university or scientific research organization (under a written contract) exceed a base period amount (based on your general university giving and certain other maintenance-of-effort levels for the three preceding years). Enter your payments on line 1. See I.R.C. 41(e) for details.

Line 2 - Enter the base period amount as defined in I.R.C. 41(e) but not more than the amount on line 1.

PART II

CREDIT CALCULATION FOR QUALIFIED RESEARCH EXPENSES

Lines 4 through 7 - pertain to qualified research expenditures paid or incurred.

IMPORTANT NOTE: Property and expenditures included in the calculation of the Research and Development Tax Credit are not permitted to be included in the calculation of the Recycling Equipment

Tax Credit, the Manufacturing Equipment and Employment Investment Tax Credit or the New Jobs Investment Tax Credit.

Line 6 - See I.R.C. 41(b)(2)(A) for rules on leased property if the taxpayer received payments for the rental or lease of substantially identical property.

Line 7 - Include 65% (.65) of any amount paid or incurred for qualified research performed on the taxpayer's behalf. Prepaid tract research expenses are considered paid in the year the research is actually done. Also include 65% (.65) of that portion of the line 1 basic research payments that does not exceed the line 2 base amount. See I.R.C. 41(e)(1)(B).

Line 9 - Compute the fixed base percentage as follows

Existing firms - The fixed base percentage is the ratio that the aggregate qualified research expenses for at least 3 tax years from 1984 to 1988 bear to the aggregate gross receipts everywhere (Schedule A, line 1 of the New Jersey Form CBT-100 or CBT-100S) for such tax years. Round off the percentage to the nearest 1/100th of 1% (i.e. four decimal places).

If taxpayer has research within and outside New Jersey and cannot determine the amount of New Jersey qualified research expenses for the period beginning after December 31, 1983 and before January 1, 1989, calculate the amount to be used in the numerator of the ratio for line 9 as follows: take the figure for qualified research and development expenses everywhere for the period and multiply it by the average of the payroll fraction and the property fraction used on the corporation business tax returns for the corresponding years in question. This amount becomes the numerator of a fraction whose denominator is taxpayer's aggregate gross receipts everywhere for the period.

Start-up companies - For tax years beginning before January 1, 1994, the fixed-base percentage is 3% if you have fewer than 3 taxable years beginning after December 31, 1983 and before January 1, 1989, in which you had both gross receipts and qualified research expenses. If the percentage computation involves de minimis amounts of gross receipts and qualified expenses in a tax year or short tax years are involved, see I.R.C. 41(c)(3) and 41(f)(4).

For tax years beginning after December 31, 1993, the fixed-base percentage is 3% for each of the first five tax years for which there were qualified research expenses. However, the fixed-base percentage for the sixth through tenth years after 1993 in which qualified research expenses are incurred is a portion of the percentage (rounded to 1/100th of one percent) which qualified research expenses bear to gross receipts everywhere for specified preceding years as follows:

1. **for the sixth year**, one-sixth of the percentage which qualified research expenses bear to gross receipts everywhere for its fourth and fifth years;
2. **for the seventh year**, one-third of the percentage which qualified research expenses bear to gross receipts everywhere for the fifth and sixth years;
3. **for the eighth year**, one-half of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through seventh years;
4. **for the ninth year**, two-thirds of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through eighth years; and
5. **for the tenth year**, five-sixths of the percentage which qualified research expenses bear to gross receipts everywhere for its fifth through ninth years.

For subsequent tax years, the taxpayer's fixed-base percentage will be the whole percentage which qualified research expenditures bear to gross receipts everywhere for any five years selected by the taxpayer from the fifth through tenth tax years.

NOTE: The maximum percentage that can be entered on line 9 is 16%.

Line 10 - Enter the average annual gross receipts everywhere for the four tax years preceding the tax year for which the credit is being determined (called the credit year). The taxpayer may be required to

annualize gross receipts for any short tax year. See I.R.C. 41(c)(1)(B) and 41(f)(4).

For purposes of lines 9 and 10, reduce gross receipts everywhere for any tax year by returns and allowances made during the tax year. In the case of a foreign corporation, include only gross receipts that are effectively connected with the trade or business within the United States.

Line 13 - The base amount cannot be less than 50% (.50) of the current year qualified research expenses. The rule applies to existing and newly organized businesses.

PART III

TOTAL RESEARCH AND DEVELOPMENT TAX CREDIT

The total research and development tax credit available on line 18 is one of several credits that are allowed under the Corporation Business Tax Act. Complete Part IV to determine the amount of credit allowable for the current tax period.

PART IV

CALCULATION OF THE ALLOWABLE CREDIT AMOUNT

- a) The allowable research and development tax credit is calculated in Part IV. The amount of this credit in addition to the amount of any other tax credits taken is limited to 50% of the taxpayer's total tax liability and cannot exceed an amount which would reduce the total tax liability below the statutory minimum.
- b) The required minimum tax liability for domestic and foreign corporations is as follows:

For returns with taxable periods beginning on or after January 1, 1997 through January 1, 2001, the minimum tax is \$200.

For returns with taxable periods beginning on or after January 1, 2002, the minimum tax shall be \$500 or the minimum tax shall be \$2,000 for a member of an affiliated group or a controlled group whose group has total payroll of \$5,000,000 or more for the privilege period.
- c) The priorities set forth in this Corporation Business Tax form follow Regulation N.J.A.C. 18:7-3.17.

PART V

RESEARCH AND DEVELOPMENT TAX CREDIT CARRYOVER

Although there is a limitation of the amount of credit allowed in any one tax year, the amount of unused tax credit may be carried forward to each of the fifteen tax years following the credit's tax year.